

Message Text

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PAGE 01 LISBON 05408 01 OF 03 211745Z
ACTION EUR-12

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FM AMEMBASSY LISBON
TO SECSTATE WASHDC 6403
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY MOSCOW
AMEMBASSY MADRID
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C O N F I D E N T I A L SECTION 1 OF 3 LISBON 5408

E.O. 11652: XGDS-3
TAGS: PINT PO
SUBJ: GOVERNMENTAL CRISIS -SALTERNATIVES AND PROSPECTS

REF: (A) LISBON 5287 (DTG 171652Z JUL 78)
(B) LISBON 3712 (DTG 181614Z MAY 78)
(C) LISBON 5065 (DTG 101611Z JUL 78)

SUMMARY: NO SOLUTION HAS BEEN REACHED AS YET TO THE
GOVERNMENTAL DIFFERENCES BETWEEN THE PS AND CDS. GIVEN
INTERNAL PRESSURES ON THE TWO PARTIES AND PRESIDENTIAL
RELUCTANCE TO INTERVENE, THE GOVERNMENT MAY FALL. THE
PRINCIPAL ALTERNATIVES ARE PRESERVATION OF THE EXISTING
GOVERNMENT THROUGH A LAST-MINUTE COMPROMISE, A NEW PS-CDS
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PAGE 02 LISBON 05408 01 OF 03 211745Z

GOVERNMENT OR NEW ELECTIONS. THE LATTER TWO OUTCOMES WOULD
DELAY KEY POLICY DECISIONS. END SUMMARY.

1. ORIGINS OF THE GOVERNMENTAL CRISIS:
A. PROBLEMS OF GOVERNING: THE PS/CDS GOVERNMENT HAS
FAILED TO CONVINCE THE PUBLIC THAT IT REPRESENTS A
FUNDAMENTAL CHANGE OR IMPROVEMENT FROM THE FIRST SOARES

GOVERNMENT. DUE TO POLITICAL, TECHNICAL, AND BUREAUCRATIC PROBLEMS, THE GOVERNMENT CONTINUES TO MOVE SLOWLY ON FUNDAMENTAL MEASURES SUCH AS THE INDEMNIZATION LAW, ON WHICH THE GOVERNMENT HAD PROMISED RAPID ACTION. MOREOVER, THE GOVERNMENT HAS TAKEN A SERIES OF UNPOPULAR AUSTERITY MEASURES, INCLUDING INCREASING TAXES AND PRICES FOR CONSUMER GOODS AND PUBLIC SERVICES, IN ORDER TO HELP REDUCE IMPORTS AND THE BUDGET DEFICIT. IT HAS NOT SUCCESSFULLY PRESENTED ITS ACTIONS AS A UNITARY PLAN, BUT HAS GIVEN THE IMPRESSION OF DECREETING A SERIES OF UNRELATED AND REACTIVE MEASURES.

B. THE AGRICULTURE MINISTRY: FROM THE EARLY DAYS OF THE PS/CDS GOVERNMENT THE PERFORMANCE OF INDEPENDENT AGRICULTURE MINISTER LUIS SAIAS AND HIS SOCIALIST STATE SECRETARY ANTONIO CAMPOS HAS BEEN CONTENTIOUS. SAIAS AND HIS MINISTRY SLOWED IMPLEMENTATION OF THE AGRARIAN REFORM LAW TO AVOID FRONTAL CONFRONTATIONS WITH THE AFFECTED COMMUNIST COLLECTIVES. THE SOCIALIST PARTY LOOKED ON THE AGRICULTURE MINISTRY'S PERFORMANCE AND ON SOCIAL AFFAIRS MINISTER ANTONIO ARNAUT'S PROMISE OF A NATIONAL HEALTH SERVICE AS A NECESSARY BALANCE TO LEFTIST CRITICISM OF THE SOCIALISTS FOR JOINING IN GOVERNMENT WITH THE CONSERVATIVE CDS. CENTER DEMOCRATS, HOWEVER, FOUND THEMSELVES UNDER INCREASED PRESSURE FROM THE PORTUGUESE CONFEDERATION OF FARMERS, AN ERSTWHILE CDS ALLY; THE CONSERVATIVE PRESS; AND THEIR RANK-AND-FILE FOR COOPERATING IN WHAT APPEARED TO BE COMPLICITY WITH THE COMMUNISTS. IN THE LAST FEW WEEKS OUTSPOKEN CRITICISM BY FORMER

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PAGE 03 LISBON 05408 01 OF 03 211745Z

SOCIALIST AGRICULTURE MINISTER ANTONIO BARRETO OF THE CURRENT GOVERNMENT'S AGRICULTURAL POLICIES HAS FUELED CONSERVATIVE DISSATISFACTION WITH THE GOVERNMENT AND PUT THE PS AND CDS ON THE SPOT.

C. DISAGREEMENT WITH PRESIDENT: PRESIDENT EANES SERIOUSLY EMBARRASSED THE GOVERNMENT WITH HIS CRITICAL APRIL 25 SPEECH (REF B). FREITAS DO AMARAL REPORTEDLY SECURED A PLEDGE FROM THE PRESIDENT IN LATE APRIL TO CORRECT THE IMPRESSION THAT HE DID NOT BACK THE GOVERNMENT. BUT, EANES HAS MADE NO SUBSEQUENT MOVE TO ENDORSE THE GOVERNMENT.

D. CRITICISM: THE GOVERNMENT HAS COME UNDER HEAVY CRITICISM FROM CONSERVATIVE SOCIAL FORCES, INCLUDING THE PORTUGUESE CONFEDERATION OF INDUSTRIES, THE PORTUGUESE FARMERS ASSOCIATION, THE PORTUGUESE CONFEDERATION OF COMMERCE, THE CHURCH, AND MUCH OF THE RIGHT-WING PRESS. THE CDS HOPES THAT THESE

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PAGE 01 LISBON 05408 02 OF 03 211752Z
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-05 H-01 INR-10 L-03
NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11 TRSE-00
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C O N F I D E N T I A L SECTION 2 OF 3 LISBON 5408

PRESSURE GROUPS WILL EASE OFF NOW THAT THEY ARE FACED WITH THE POSSIBLE FALL OF THE GOVERNMENT. UNLIKE THE RIGHT, AFTER AN INITIAL FLURRY OF ATTACKS, THE COMMUNISTS AND THEIR CGTP LABOR ARM HAVE TAKEN A RELATIVELY MILD LINE WITH THE GOVERNMENT, STILL CRITICAL BUT NOT THREATENING MAJOR STRIKES OR DEMONSTRATIONS.

E. INTERNAL PARTY PRESSURES: IN A RESPONSE TO THE CRESCENDO OF CRITICISM ON THE RIGHT, FREITAS DO AMARAL DECIDED, JUST 24 HOURS BEFORE THE JULY 8 NATIONAL COUNCIL MEETING, TO PRESENT AN ULTIMATUM TO HIS SOCIALIST PARTNERS IN ORDER TO DEFLECT RANK-AND-FILE CRITICISM OF THE CDS ROLE IN GOVERNMENT (REF C.) CDS CONSERVATIVES HAVE BEEN UNEASY ABOUT CENTRIST ENTRY INTO ALLIANCE WITH THE SOCIALISTS SINCE FEBRUARY.
CONFIDENTIAL

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PAGE 02 LISBON 05408 02 OF 03 211752Z

THE PARTY AVOIDED SERIOUS INTERNAL DISSIDENCE PREVIOUSLY, BUT GROWING PRESSURE FROM THE CONSERVATIVE RANK-AND-FILE TO SHOW PARTY INFLUENCE ON AGRICULTURE, HEALTH AND OTHER KEY ISSUES REQUIRED A STRONG CDS STAND. THE SOCIALISTS HAVE ALSO SOUGHT TO SHOW THEY WERE NOT PRISONERS OF THEIR CDS

ALLIES. AT ONE POINT, MARIO SOARES TOLD A SOCIALIST RALLY THAT THE PS/CDS GOVERNMENT IS MORE TO THE LEFT THAN ITS PREDECESSOR. THE MOST SERIOUS PROBLEM OF INTERNAL DISSIDENCE WITHIN THE SOCIALIST PARTY AT THE MOMENT, HOWEVER, COMES FROM ANTONIO BARRETO AND FORMER FOREIGN MINISTER MEDEIROS FERREIRA, WHO HAVE ADVOCATED A STRONGER PRESIDENTIAL ROLE. THE STANDS OF BARRETO AND MEDEIROS FERREIRA HAVE STRENGTHENED THE HAND OF LEFT-WING SOCIALISTS.

2. DETERMINANTS OF GOVERNMENT SURVIVAL:

A. SOCIALIST PARTY PRESSURES: THE SOCIALISTS WOULD STRONGLY PREFER TO SEE THE GOVERNMENT THROUGH UNTIL 1980. HOWEVER, CONCESSIONS TO THE CDS COULD CAUSE THE SOCIALISTS PROBLEMS WITH THEIR LEFT-WING. MARIO SOARES HAS SAID HE WILL NOT YIELD TO PUBLIC CDS DEMANDS FOR CABINET CHANGES.

B. CONSERVATIVE PRESSURES ON CDS: THE CENTER DEMOCRATS HAVE EVEN MORE TO LOSE THAN THE SOCIALISTS FROM EARLY ELECTIONS. YET, THEY CANNOT GO BACK TO THEIR RANK-AND-FILE EMPTY-HANDED. THEY MUST DEMONSTRATE THAT THEIR POWER AND INFLUENCE WITHIN THE GOVERNMENT HAS BEEN ENHANCED AND THAT CDS CONCERNS OVER THE AGRICULTURE MINISTRY TEAM HAVE BEEN MET.

C. PRESIDENTIAL POSITION: EANES HAS ALREADY AGREED TO PRESIDE OVER A COUNCIL OF MINISTERS MEETING DESIGNED TO RESOLVE PRIORITY GOVERNMENT PROBLEMS, THUS GIVING AN IMAGE
CONFIDENTIAL

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PAGE 03 LISBON 05408 02 OF 03 211752Z

OF PRESIDENTIAL SOLIDARITY WITH THE GOVERNMENT. BUT, THIS IS NOT ENOUGH FOR THE CDS WHICH WANTS EANES TO STEP IN TO HELP RESOLVE THE GOVERNMENT CRISIS. MARIO SOARES OPPOSES ANY INTERVENTION BY THE PRESIDENT AND EANES HAS RESISTED IN THE PAST FIVE MONTHS AND CONTINUES TO RESIST SERVING AS ARBITER BETWEEN THE COALITION PARTNERS.

3. ALTERNATIVES:

A. PS/PSD: SUCH A GOVERNMENT SEEMS UNLIKELY BOTH BECAUSE THE TWO PARTIES HAVE BEEN SO HOSTILE FOR MANY MONTHS AND BECAUSE SA CARNEIRO DOES NOT WANT TO BECOME A JUNIOR GOVERNMENT PARTNER WHEN TIME IS WORKING IN FAVOR OF THE PSD. MOREOVER, SA CARNEIRO HAS MOVED HIS PARTY TO THE RIGHT SO THAT SUBSTANTIVE NEGOTIATIONS WITH THE PS WOULD BE VERY DIFFICULT. PSD INTERNAL DECISIONS ARE ALSO A COMPLICATING FACTOR.

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PAGE 01 LISBON 05408 03 OF 03 211758Z

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C O N F I D E N T I A L SECTION 3 OF 3 LISBON 5408

B. A PS/PSD/CDS GOVERNMENT: SUCH A GOVERNMENT IS NOT RULED OUT BY ANY OF THE PARTIES, ALTHOUGH THE SOCIALISTS WOULD FEAR THE DIMINISHMENT OF THEIR INFLUENCE. HOWEVER, SUCH A GOVERNMENT COULD ONLY RESULT FROM LONG DRAWN-OUT NEGOTIATIONS, PROBABLY EVEN LONGER THAN THE TWO MONTHS OF NEGOTIATIONS REQUIRED TO PRODUCE A PS/CDS GOVERNMENT. IN THE MEANTIME, KEY POLITICAL AND ECONOMIC DECISIONS WOULD BE DEFERRED.

C. PS GOVERNMENT WITH PCP SUPPORT: A NON-STARTER.

D. A PRESIDENTIAL GOVERNMENT: THE SOCIALISTS AND COMMUNISTS WOULD OPPOSE SUCH A GOVERNMENT. MARIO SOARES MADE THE POINT LAST DECEMBER THAT THE PRESIDENT WOULD HAVE GREAT DIFFICULTY FORMING A GOVERNMENT WITHOUT SOARE'S BACKING. THOSE CONDITIONS HAVE NOT CHANGED. EANES HAS SHOWN NO STRONG
CONFIDENTIAL

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PAGE 02 LISBON 05408 03 OF 03 211758Z

DESIRE TO MOVE TO A PRESIDENTIAL GOVERNMENT AND HIS ADVISORS ARE NOT UNITED ON WHAT ROLE THE PRESIDENT SHOULD PLAY.

E. A PS/CDS GOVERNMENT: THE SOCIALISTS AND CENTER DEMOCRATS COULD REACH A COMPROMISE IF BOTH SIDES YIELD MORE THAN THEY SEEM WILLING TO YIELD. OR THE PRESENT GOVERNMENT COULD FALL AND BE REPLACED BY A NEW PS/CDS GOVERNMENT MINUS SOME THE CONTENTIOUS PERSONALITIES PRESENT IN THE CURRENT ALIGNMENT. THE CDS WOULD LIKELY INSIST ON AN ASSURANCE OF GREATER INFLUENCE IN ORDER TO PARTICIPATE ONCE AGAIN, AND NEGOTIATIONS WOULD BE PROTRACTED AND DIFFICULT.

F. NEW ELECTIONS: THE ALTERNATIVE IF ALL ELSE FAILS, ALTHOUGH ONLY THE PSD AND PCP STAND TO GAIN. FOR TECHNICAL REASONS, HOWEVER, ELECTIONS COULD NOT BE HELD UNTIL LATE 1978 GIVING SOME ADDITIONAL TIME FOR NEGOTIATIONS PRIOR TO AN ELECTION DECREE.

4. PROSPECTS: INSUFFICIENT PROGRESS HAS BEEN MADE TO DATE TO RESOLVE DIFFERENCES BEFORE THE JULY 23 PS AND CDS LEADERSHIP MEETINGS. BARRING SOME DRAMATIC PROGRESS, THE GOVERNMENTAL CRISIS IS LIKELY TO DRAG ON SOMEWHAT LONGER. THEY MOST LIKELY ALTERNATIVES ARE PRESERVATION OF THE EXISTING GOVERNMENT, FORMATION OF A NEW PS/CDS GOVERNMENT AFTER THE FALL OF THE CURRENT GOVERNMENT, OR NEW ELECTIONS. IF THE EXISTING GOVERNMENT HANGS ON, IT MUST BE STRENGTHENED THROUGH SUBSTANTIAL ALTERATIONS IN THE PS/CDS AGREEMENT OR FACE ANOTHER CRISIS A FEW MONTHS FROM NOW. A NEW PS/CDS GOVERNMENT OR NEW ELECTIONS, HOWEVER, WOULD PROBABLY MEAN POSTPONEMENT OF KEY POLICY DECISIONS PENDING RESOLUTION OF THE CRISIS (E.G. THE MEASURES DEFINING COMPENSATION AND REEVALUATION OF ASSETS).

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PAGE 03 LISBON 05408 03 OF 03 211758Z

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